



## Partnership for Market Readiness

### Template for Expression of Interest and Questionnaire on Market Readiness Capacity

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**Template for Expression of Interest  
and  
Questionnaire on Market Readiness Capacity**

## Introduction - Capacity building needs assessment: How to get started?

This document is meant to provide a framework for countries to express their interest in participating in the Partnership for Market Readiness (PMR)<sup>1</sup>. It contains a series of questions designed to help countries make an early assessment of opportunities to use market-based instruments<sup>2</sup> within their national and/or sectoral mitigation strategies, their existing capacity and what gaps may need to be filled. Capacity is a central element in the overall process to implement market-based instruments, both in the design and implementation phase. The individual needs for additional capacity vary substantially depending on the starting point of a country, the selection of instruments and the scope of the envisaged implementation.

The process is divided in two parts.

A. The **Expression of interest**, which includes an official cover letter and a policy statement, provides an opportunity for a country to formally seek support from the PMR and express its interest in using market instruments as a potential mechanism to achieve climate mitigation actions within its national political context.

B. A **Questionnaire** supports the Expression of Interest. The Questionnaire is used to provide detailed technical information on the country's existing capacity to implement market mechanisms. While it is not required to respond to all the questions, interested countries are encouraged to provide as much information as possible in order to shed light on their domestic contexts and provide an understanding of their respective market readiness capacity. The questionnaire covers five areas:

- *Policy, legal frameworks and institutions*: this section covers the existing policy framework, national policy-making processes, and institutions related to climate change which form an important part of the relevant government capacity – crucial for the effectiveness of any policy instrument, especially market-based instruments. This section looks at regulatory capacity, links to the UNFCCC, experience with the Clean Development Mechanism (CDM), and other environment-related market-based instruments.
- *Measurement, reporting and verification (MRV)*: this section provides an overview of government capacity and existing procedures for data management and MRV of energy use and GHG emissions. This is important both for the use of market instruments, but also for assessing non-market based mitigation actions.
- *Understanding of the sector(s)*: this section is intended to provide a more detailed insight related to individual sectors, particularly with respect to government capacity, data availability and organization of the sector.
- *Non-governmental actors*: while the focus of the capacity needs assessment is clearly on public capacity, to successfully implement mitigation actions, especially market-based instruments, a solid capacity base within non-governmental actors is essential. This section therefore assesses this capacity, to enable a government to evaluate the overall situation and capacity building needs within the country.

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<sup>1</sup> The reader should refer to the design document of the Partnership for Market Readiness for a detailed description of the PMR.

<sup>2</sup> For reference purposes, Annex 1 contains an overview of market instruments being discussed internationally.

**List of acronyms**

CDM	Clean Development Mechanism
DNA	(CDM) Designated National Authority
DOE	Designated Operational Entity
GHG	Greenhouse gas
ISO	International Organization for Standardization
JI	Joint Implementation
LEDS	Low emissions development strategy
MRV	Measuring, reporting and verification
NAMA	Nationally Appropriate Mitigation Action
PMR	Partnership for Market Readiness
VER	Voluntary Emission Reduction
UNFCCC	United Nations Framework Convention on Climate Change

## A. Expression of interest

### Partnership for Market Readiness (PMR)

#### Expression of interest in participating in the PMR

*Countries seeking support from the PMR are requested to prepare a cover letter, including a short statement confirming the country's interest in participating in the PMR. The cover letter should be accompanied by an Annex containing the following information:*

**1. Name of the government agency submitting expression of interest**

**National Council on Climate Change (Dewan Nasional Perubahan Iklim or DNPI) of Indonesia**

**2. Name and contact information of designated PMR Government focal point**

**Mr. Rachmat Witoelar, Executive Chair of the National Council on Climate Change-Indonesia**

**3. Domestic mitigation action:** outline what are the purposes and main objectives of your country's mitigation strategy.

- a. Provide an overview of domestic mitigation policies and plans and the status of the implementation - at both the national and sub-national levels.
- b. Briefly identify the key sectors targeted by the mitigation strategy.

#### **A. Domestic Mitigation Policies**

The domestic mitigation actions are based on Indonesia voluntary commitment to reduce its national greenhouse gases emission by 26% based on business as usual (BAU) level by 2020. Indonesia can further this commitment up to 41% with international support. This pledge was announced by President Susilo Bambang Yudhoyono at G20 Summit in Pittsburgh, USA, November 2009.

A national action plan on greenhouse gases emission reduction as a follow-up of this commitment has been completed and is awaiting legality confirmation. The plan incorporates actions to be taken by line ministries and sectoral agencies whose authorities are to oversee the biggest emitting sectors, i.e. forestry, peat land, power generation, industries (especially manufacture), and waste. The proportion of national government budget for climate change mitigation activities would refer to this plan accordingly.

Nationally, the status of mitigation implementation hitherto is varied from sector to sector. To address GHG emissions from land-use, land-use change and forestry (LULUCF), Indonesia has developed National REDD plus strategy which will be integrated into the institution of REDD plus special agency, an on-going initiative undertaken under the Letter of Intent between the Governments of Norway and Indonesia. This agency will evolve to become the overarching and central institution that will manage REDD plus programs in Indonesia with funding support from various sources, including government owned budget. A system for measurement, monitoring and verification of REDD plus programs is currently being developed to be an integral part of this challenging and yet instrumental undertaking.

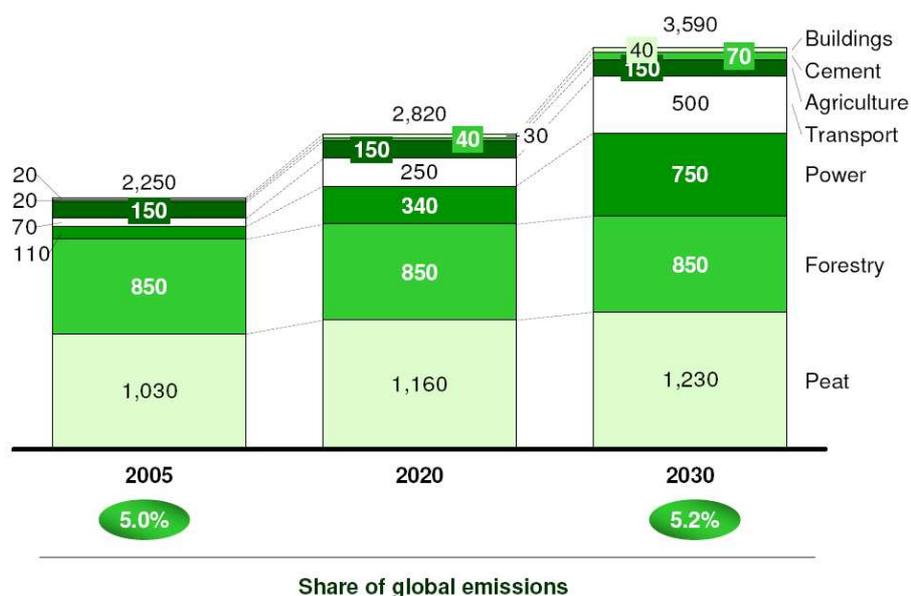
On energy and power generation sectors, ample feasibility studies have been done to explore clean coal technologies and ways of energy efficiencies, including their financing issues. Geothermal has also been pushed not only to support low carbon development but also to meet the national target on electrification ratio. To speed up geothermal development, Indonesia is working on two major obstacles: energy pricing policy and government support for feasibility

studies. The Coordinating Ministry of Economic Affairs have looked at clean coal technologies and geothermal, along with infrastructure development, as projects to boost regional economic development and low carbon economy at sub-national level.

On GHG emissions reduction from industries, many studies have been conducted that resulted in recommendations on energy efficiency and renewable energy particularly for top-emitter industries such as cement, steel, and petrochemical. These industries have taken initiatives to reduce emissions but need increased policy support—especially through fiscal and tax incentives—to accelerate and amplify their efforts.

### B. Key Sectors Targeted

Indonesia GHG Abatement Cost Curve study (DNPI 2010) provides strong base projection for efforts to achieve national mitigation objectives. The study outlines that Indonesia’s GHG emissions in 2005 stood at 2.3 Gt CO<sub>2</sub>e, and are expected to grow by 2% annually reaching 2.8 Gt CO<sub>2</sub>e in 2020 and 3.6 GtCO<sub>2</sub>e in 2030. However, the study also indicates that Indonesia could potentially reduce emissions by up to 2.3 GtCO<sub>2</sub>e by 2030 through implementation over 150 reduction opportunities across the main emitting sectors: forestry with peat-related emissions, agriculture, power, transportation, buildings and cement.



Source: Indonesia GHG Abatement Cost Curve, NCCC

Figure 1. Projected Indonesian emission 2005 - 2030

**4. Market Instruments<sup>3</sup>:** briefly outline experience to date with relevant market instruments as well as future plans.

- a. Provide a brief description of experience to date with market-based instruments, e.g., type of

<sup>3</sup> Without prejudging future developments on market instruments, this question refers to instruments providing a price signal that create an incentive to use or invest in climate-friendly technologies and/or processes. Such market instruments can include domestic instruments (e.g., emissions trading and non-GHG based schemes such as renewable energy and energy efficiency trading systems) and international market instruments such as reformed CDM, sectoral, and NAMA crediting.

instrument, dates of implementation, scope, and key outcomes.

- b. To the extent that one (or more) specific market instrument is already identified for future implementation, provide a brief overview of the status of development/implementation and its relevance to the country's overall mitigation strategy.

## **1. Experiences to Date With Market-Based Instruments**

### **• CDM Experiences**

Indonesia has two kinds of carbon market that have been developed, CDM and voluntary carbon market. Indonesia ratified the Kyoto Protocol (KP) by Law No. 14/2004, which allowed CDM project development in the country. The ratification of the protocol also represents an economic opportunity through its implementation of Clean Development Mechanism (CDM) projects particularly to finance the low carbon development projects.

Following up the KP ratification, Indonesia established the National Committee for the Clean Development Mechanism/NCCDM (*Komisi Nasional Mekanisme Pembangunan Bersih/Komnas MPB*) to coordinate CDM project implementation. It is a governmental entity created by Ministry of Environment Decree No. 206 (July 21, 2005) to function as Indonesia's designated national authority (DNA) for CDM. Indonesia's DNA is supported by a secretariat and technical team. In October 2009, the secretariat of Komnas MPB was relocated to NCCC.

In 2005, Indonesia's DNA established sustainability criteria to evaluate CDM projects. Every CDM projects should meet these criterias that consist of environment, economic, social, and technology transfer parameters.

Based on the National Strategy Study on CDM (2001), Indonesia has the potential for reducing 25 million tons of carbon dioxide equivalent (CO<sub>2</sub>e) per year or equal to 2.5 percent of global CDM market. This huge potential should be vigorously supported by solid institutional arrangements and continuous capacity building for key stakeholders.

By December 2010, Indonesian CDM registered projects only produce expected average annual CERs of 3.8 million. This is 1.16 percent of total expected average annual CERs from all host party and 15 percent of assumed potential thus indicated huge opportunities for improvement. The opportunities to develop new carbon market projects are still very large. To this end, Indonesia needs to enhance understanding of business community on this instrument to allow those opportunities to come to fruition.

Indonesia's DNA has also encouraged investment in CDM projects through international cooperation and collaboration with financial institutions. Financing is one of the major issues in CDM development in Indonesia as financial instruments to support emission reduction projects are still limited in variety.

In view of uncertainties of CDM post 2012, Indonesia expects its CDM projects decreasing. This has motivated CDM developers to turn to voluntary carbon market.

### **• Voluntary Carbon Market Experiences**

Voluntary carbon market (VCM) is new in Indonesia but has shown promising growth. The types of projects covered by VCM are, among others, forestry, geothermal, reducing fugitive emissions, and hydro power. One of key features of VCM that has attracted many market players and developers is its straightforward procedure compared to CDM.

All of market instruments employed for VCM are similar as those for CDM, with the exception of

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needing a letter of approval from Indonesia's DNA. VCM investments comes from the business entities themselves rather than financial (banking) institution facility.

**5. Support from the PMR:** provide a short summary of your current assessment of the capacity needs and gaps for which support from the PMR is being sought. To the extent that one (or more) specific market instrument is identified; outline the type of support that your country may be seeking from the PMR.

It is predicted that there will be new market mechanisms implemented globally, regionally or bilaterally after the Kyoto Protocol ends. These include new CDM mechanism, REDD plus, crediting NAMAs, bilateral offset mechanism, and other proposals currently under UNFCCC negotiation. Indonesia has gained worthwhile experiences to deal with these emerging schemes. However, the future market mechanisms would need a new set of expertise, partially or wholly, and consequently Indonesia will need make a lot of preparation and analyses.

As a preliminary assessment in the context of future emerging carbon market schemes, Indonesia identified preparation and analyses needed under collaboration between Indonesia and PMR, as follows:

- a. Cost and benefit analysis of future emerging carbon market schemes.
- b. Analysis on policy gaps and development.
- c. Analysis on institutional needs and capacity.
- d. Capacity building and information dissemination.
- e. Financial instruments development.
- f. Development of new and/or supporting institution, if deemed necessary.

**6. Institutional setting:** how would you plan to coordinate the PMR efforts at the domestic level, i.e., which Ministry would lead and which government agencies would be involved?

The National Council on Climate Change (DNPI) of Indonesia is the country's national focal point for UNFCCC and other international forum on climate change. It is responsible for the formulation of the national policy, strategy and programs as well as coordination of all policy implementations related to climate change control, including mitigation, adaptation, technology transfer and financing activities. As the designated national authority of CDM, DNPI is also mandated to promote robust carbon market.

DNPI will act as the coordinator of all of the PMR activities in Indonesia and communication point between Indonesian Government and World Bank's PMR. To this end, DNPI will work together with key relevant ministry and agencies, e.g. Ministry of Environment, Ministry of Energy and Mineral Resources, Ministry of Forestry, Ministry of Industry, Ministry of Finance, Coordinating Ministry of Economic Affairs, Ministry of Agriculture, Indonesia Central Bank, Indonesia National REDD Agency.

**7. Stakeholder participation:** are there intentions/plans /processes to engage non-governmental stakeholders (e.g., private sector)? If so, provide brief description.

The non-government stakeholders, especially private companies that have been actively involved in carbon market, are one of key partners of DNPI. PMR implementation in Indonesia will engage and consult them throughout the project cycle to ensure the recommendations and plans produced by this project are feasible politically and economically.